ORIGINAL

COMMISSIONERS

BOB STUMP– Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS NORTHERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-12-0348

ARIZONA WATER COMPANY'S

CLOSING BRIEF

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

ARIZONA WATER COMPANY'S

PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit
Testimony of Joel Reiker in Support of Settlement Agreement	A-3
Responsive Testimony of Joel Reiker in Support of Settlement Agreement	A-4
Responsive Testimony of Pauline Ahern In Support of Settlement Agreement	A-5
Direct Testimony of Joel Reiker	A-7
Direct Testimony of Joseph Harris	A-8
Direct Testimony of William Garfield	A-9
Direct Testimony of Pauline Ahern	A-10
Direct Testimony of Fred Schneider	A-11

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

ARIZONA CORPORATION COMMISSION STAFF'S PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit
Direct Testimony of Jeff Michlik	S-1
Rate Design Testimony of Jeff Michlik	S-2
Direct Testimony of John Cassidy	S-3
Direct Engineering Testimony of Katrin Stukov	S-4
Testimony in Support of the Settlement Agreement of Steve Olea	S-5
Responsive Testimony in Support of the Settlement Agreement of Steve Olea	S-6

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

RESIDENTIAL UTILITY CONSUMER OFFICE'S PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit
Direct Testimony, Settlement Agreement of William Rigsby	RUCO-5
Responsive Testimony, Settlement Agreement of William Rigsby	RUCO-6
Direct Testimony of William Rigsby	RUCO-7
Direct Testimony, Cost of Capital of William Rigsby	RUCO-8
Direct Testimony of Jorn Keller	RUCO-9
Direct Testimony, Rate Design of Robert Mease	RUCO-10

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

I. INTRODUCTION

On August 1, 2012, Arizona Water Company ("Arizona Water Company" or "the Company") filed an application for a determination of the fair value of its utility plant and property, and for adjustments to its rates and charges for utility service furnished by its Northern Group of water systems, including its Navajo (Lakeside and Overgaard) and Verde Valley (Sedona, Pinewood and Rimrock) systems. Following the filing of direct testimony by the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") and the Residential Utility Consumer Office ("RUCO") between February 28 and March 5, 2013, Staff filed a Notice of Settlement Discussions on March 13, 2013, noting that settlement discussions concerning this case might commence on or after March 19, 2013. Arizona Water Company, Staff, and RUCO were notified of the settlement discussion process and were provided with an equal opportunity to participate. Pursuant to Staff's notice, formal settlement discussions involving those parties began on March 19, 2013, at the Commission's offices, and were concluded that same day.

As is set forth in detail below, Arizona Water Company and Staff (the "Signatory Parties") reached agreement and compromise on the issues in the case and entered into a signed Settlement Agreement. Although RUCO fully participated in the settlement discussions, it eventually declined to be a signatory party to the Settlement Agreement filed April 15, 2013. [Hearing Exhibit ("Ex.") A-1]. The Signatory Parties recited that they believed the settlement reached between them addressed many of the issues in the case raised by RUCO, but not all such issues. [*Id.* at Section 1.6].

The matter proceeded to an evidentiary hearing on May 13, 2013 for the purpose of the Utilities Division Staff and Arizona Water Company presenting testimony and evidence in support of the Settlement Agreement and allowing RUCO to respond. The settlement in this case proposes the same SIB mechanism[1] that was under consideration by the Commission in the Company's Eastern Group docket (No. W-01445A-11-0310) (the

[1] "SIB" is the acronym for "System Improvement Benefits."

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

"Eastern Group case") as of the date of the hearing. The basic SIB mechanism as set forth in a settlement between the Utilities Division Staff, Arizona Water Company, and most of the other intervenors in the Eastern Group case was adopted by the Commission at its June 12, 2013 Open Meeting.[2] The Commission incorporated the entire record of the proceedings in the Eastern Group case into this docket in a pre-hearing ruling on May 8, 2013. Citations to the Eastern Group case will be specifically designated as such in this closing brief.

II. THE SETTLEMENT PROCESS WAS OPEN AND INVOLVED A VIGOROUS NEGOTIATION RESULTING IN AN AGREEMENT THAT IS IN THE PUBLIC INTEREST

The record is clear that the settlement process in this case was open, transparent, and inclusive of all parties – including Staff, the Company, and RUCO. The Signatory Parties specifically agree in the Settlement Agreement that the negotiation process undertaken in this matter "was open, transparent, and inclusive of all Signatory Parties and RUCO, with each such party having an equal opportunity to participate." [Ex. A-1, Section 1.7]. The Settlement Agreement provides that both Signatory Parties and RUCO, including their counsel and principal witnesses and representatives, attended and actively participated in all phases of settlement discussions. [*Id.*; Ex. A-3 at p. 3, l. 20 – p. 5, l. 6; May 13, 2013 Hearing Transcript ("5-13 Tr.") at p. 41, l. 7 – p. 43, l. 7]. The director of the Commission's Utilities Division and Staff witness, Steven Olea, agreed that the process was transparent and inclusive. [May 14, 2013 Hearing Transcript ("5-14 Tr.") at p. 255, l. 13 – p. 256, l. 24]. RUCO witness William Rigsby agreed that the discussions were conducted in an open and transparent manner, and that RUCO participated fully and without any restrictions. [*Id.* at p. 350, l. 21 – p. 351, l. 24]. The Signatory Parties agree that the Settlement Agreement terms will serve the public interest by providing a just and

[2] The Commission also adopted several non-material adjustments to the proposed SIB mechanism; however, as of the date of this filing, the formal Decision and Order incorporating the Commission's action on June 12 has not yet been filed.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

reasonable resolution of the issues presented in the rate case, establishing just and reasonable rates for the Company's customers, and promoting the health, welfare, and safety of those customers. [Ex. A-1, Section 1.9]. The Signatory Parties also agree that Commission approval of the Settlement Agreement would further serve the public interest by allowing them to avoid the expense and delay associated with continued litigation. [*Id.*]. Specifically, Utilities Division Director Olea testified that the agreement is "fair, balanced, and in the public interest," that it balances both the interests of the Company's rate payers and its investors, and that it serves the primary goal of Staff in all rate proceedings before the Commission "to protect the public interest by making recommendations that are just, fair, and reasonable for both the rate payers and the Company." [Ex. S-5 at p. 7, l. 23 – p. 8, l. 15].

III. THE UNCONTESTED PORTIONS OF THE COMPANY'S APPLICATION AND THE SETTLEMENT AGREEMENT ARE IN THE PUBLIC INTEREST AND SHOULD BE ADOPTED

At the May 8, 2013 pre-hearing conference, the parties submitted an agreed-upon disputed issues matrix. Although RUCO was not a signatory party to the Settlement Agreement, RUCO agreed that only a limited set of issues remained in dispute for purposes of the evidentiary hearing: the implementation of a SIB mechanism, the compromised return on equity ("ROE"), and the adjustment for declining usage to test year billing determinants. The record in this proceeding and the testimony of the witnesses at the evidentiary hearing support the uncontested portions of the Company's rate application and the Settlement Agreement. Those uncontested portions are in the public interest and should be adopted by the Commission.

A. Rate Base.

Staff, Arizona Water Company, and RUCO agree that the Company's Northern Group rate base should be $36,045,295. [Ex. A-1, Sections 1.5, 2.3]. Of this total, rate base for the Navajo Division is $10,060,534, and for Verde Valley is $25,984,761 (rounded). [*Id.* at Schedule ("Sch.") B-1]. The Company provided evidence and support

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

for its Northern Group rate base in its application, schedules and testimony; all parties agree that these figures are correct and appropriate and they should be adopted by the Commission.

B. Adjusted Test Year Operating Income.

Arizona Water Company, Staff, and RUCO also agree that adjusted test year operating income should be $1,684,394, broken down by Navajo ($474,971) and Verde Valley ($1,209,423). [Ex. A-1, Sch. A-1]. As with rate base, these figures were supported by the Company's application, schedules and testimony; all parties agree that these figures are appropriate and they should be adopted by the Commission.

C. Off-Site Facilities Fee.

Section 7.1 of the Settlement Agreement [Ex. 1] sets forth the Signatory Parties' agreement that the $1,100 (⅝" x ¾" meter) off-site facilities fee for the Verde Valley system, as proposed in the Company's application and tariff schedule (in the form set forth in Ex. 2 to the Settlement Agreement) should be adopted. As established in the Issues Matrix circulated and discussed at the May 8, 2013 Prehearing Conference, RUCO agrees. The Company provided evidence and support for the facilities fee in its application, schedules and testimony; all parties agree that this fee is appropriate and it should be adopted by the Commission.

D. Arsenic Cost Recovery Mechanism ("ACRM").

Section 7.2 of the Settlement Agreement [Ex. 1] sets forth the Signatory Parties' agreement that an Arsenic Cost Recovery Mechanism ("ACRM") should be authorized for the Company's Navajo and Verde Valley systems. As established in the Issues Matrix circulated and discussed at the May 8, 2013 Prehearing Conference, RUCO agrees. The Company provided evidence and support for the ACRM in its application, schedules, and testimony; all parties agree that the ACRM is appropriate and it should be adopted by the Commission.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

E. Best Management Practices ("BMP").

Section 7.3 of the Settlement Agreement [Ex. 1] sets forth the Signatory Parties' agreement that Arizona Water Company may defer and record the costs associated with implementing and performing its Commission-approved Best Management Practices ("BMP") for recovery in a future general rate case. As established in the Issues Matrix circulated and discussed at the May 8, 2013 Prehearing Conference, RUCO agrees. The Company provided evidence and support for deferring and recording these costs in its application, schedules and testimony; all parties agree that deferring and recording BMP costs is appropriate.

F. Monitoring Assistance Program ("MAP Surcharge").

During the hearing, the issue of continuing the Company's Monitoring Assistance Program ("MAP") surcharge was raised. The Company's MAP surcharge was not mentioned specifically in the Settlement Agreement because the Commission already has approved the Company's Tariff providing for the surcharge. [5-14 Tr. at p. 230, ll. 15-21; Ex. A-17 (Tariff)]. The Company stated that it would have no objection to the Commission entering a Finding of Fact and carrying the MAP surcharge forward to a Conclusion of Law and Order consistent with the existing Tariff. [*Id.* at p. 232, l. 22 - p. 23, l. 11], and the other parties agreed. [*Id.* at p. 252, l. 18 – p. 253, l. 8 (Staff); p. 395, ll. 1-9 (RUCO)].

G. Rate Consolidation.

Section 5.1 of the Settlement Agreement (Ex. 1) sets forth the Signatory Parties' agreement that Arizona Water Company may complete the full consolidation of its Verde Valley (Sedona, Pinewood and Rimrock) system. The Company provided evidence and support for the full consolidation of the Verde Valley System in its application, schedules and testimony; all parties agree that full consolidation is appropriate and should be adopted by the Commission.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

IV. THE OVERALL REVENUE INCREASE IS FAIR AND REASONABLE

Arizona Water Company and Staff agreed that the Company should receive an annual increase in revenues of $2,240,329 for an annual revenue requirement of $12,496,939. [Ex. A-1, Section 2.2]. The record demonstrates, however, that the actual revenue increase under the Settlement Agreement is $1,655,400, or 16.1 percent (as opposed to the 21.8 percent recited in the Settlement Agreement) when the Sedona Step-2 ACRM surcharge that is currently in effect is taken into account. [5-13 Tr. at p. 215, ll. 3-21; 5-14 Tr. at p. 237, l. 5 – p. 240, l. 5]. This is because the ACRM surcharge will be reset to zero when the new rates go into effect. [*Id.*] The actual revenue increase in the Verde Valley system under the Settlement Agreement is $1,036,865, or 15.73 percent, rather than the figure stated in the Company's application ($1,621,794, or 24.6 percent), because of the effect of resetting the ACRM surcharge to zero. The record fully supports this revenue increase, Staff is in agreement, and it is fair and reasonable and in the public interest and should be adopted.

V. THE SIB MECHANISM SET FORTH IN THE SETTLEMENT AGREEMENT AND ADOPTED BY THE COMMISSION IN THE EASTERN GROUP PHASE 2 PROCEEDING ON JUNE 12, 2013 SHOULD BE ADOPTED FOR THE NORTHERN GROUP

Section 6.0 of the Settlement Agreement [Ex. A-1] addresses the SIB mechanism agreed to by the Company and Staff. As recited in Section 6.1 of the Settlement Agreement, both the Signatory Parties and RUCO participated in lengthy settlement discussions about the SIB mechanism in the Eastern Group case. Those discussions resulted in a Settlement Agreement setting forth the SIB mechanism being docketed in the Eastern Group case on April 1, 2013, a copy of which was incorporated by reference into the Settlement Agreement in this proceeding and attached as Exhibit 1 to Ex. A-1. The parties agreed and the Commission ordered the incorporation of the entire record in the Eastern Group case as support for the SIB mechanism proposed in this case. With the adoption of the SIB mechanism for the Eastern Group by the Commission at its Open

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

Meeting on June 12, 2013, and the record supporting the application of the SIB mechanism here, the proposed SIB mechanism should be adopted in this case.

A. The SIB Mechanism Agreed to by the Signatory Parties and Adopted By the Commission in the Eastern Group Phase 2 Proceedings is in the Public Interest and Should be Adopted.

The provisions of the agreed-upon SIB mechanism are set forth in the Settlement Agreement and its associated exhibits and tables. The agreed-upon SIB mechanism represents significant further compromise from the Distribution System Improvement Charge ("DSIC") mechanism as originally proposed by Arizona Water Company in the Eastern Group case, which was further refined during the course of the Eastern Group Phase 1 and 2 proceedings. The agreed-upon SIB mechanism appropriately balances the interests of the Company, its customers, and the public. Its key provisions include:

- Commission Pre-Approval of SIB-Eligible Projects – All of the infrastructure replacement projects contemplated for SIB recovery must be reviewed by Staff and approved by the Commission prior to the Company filing for recovery of the capital costs associated with such projects. The specific projects eligible for SIB treatment under the proposed Settlement Agreement in this proceeding are listed in SIB Plant Table I, Ex. A-2. Staff has already reviewed and approved those projects. [5-13 Tr. at p. 27, ll. 7-23; p. 58, l. 15 – p. 59, l. 20]. All of the Commission-approved projects that are included in a SIB surcharge filing must be completed and placed in service prior to the SIB surcharge going into effect. Before the Company can add a qualifying project to the list of SIB-eligible projects, it must first seek Commission approval to add that project to the list. Additionally, the SIB mechanism as approved by the Commission in the Eastern Group case requires the Company to file a report with the Commission every six months summarizing the status of all SIB eligible projects.
- SIB Project Eligibility Criteria – Only those projects completed for the purpose of maintaining or improving existing customer service and reliability, integrity

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

and safety are eligible for SIB treatment. Projects designed purely to extend existing facilities or expand capacity to serve new customers are not eligible for SIB treatment.

- Costs Eligible for SIB Recovery – The project costs eligible for SIB surcharge recovery are limited to the pre-tax rate of return on investment and depreciation expense associated with SIB-eligible projects. The rate of return, depreciation rate, and tax multiplier will be equal to those approved in this general rate case, as set forth in the Settlement Agreement. The calculation of the SIB surcharge will also take into account any related plant retirements.
- Efficiency Credit – A credit equal to five percent of the SIB surcharge revenues will be given back to customers in the form of a SIB efficiency credit. Based on the record in the Eastern Group case, this translates to an 87-basis point reduction in the ROE applicable to SIB-eligible plant investments.
- SIB Surcharge Cap – The amount to be collected from each SIB surcharge is capped annually at five percent of the revenue requirement authorized in the Company's most recent general rate case.
- SIB Surcharge Rate Design – The SIB surcharge will be a fixed monthly surcharge presented as two separate line-items on customers' bills: a SIB fixed surcharge and a separate SIB efficiency credit. The surcharge will increase with meter size based on the flow capacity of the meter.
- Commission Approval of SIB Surcharge – Each SIB surcharge filing must be approved by the Commission before the Company implements the surcharge. To this end, the Company will include a proposed order for the Commission's consideration with each SIB surcharge filing. When the Company files a SIB surcharge, Staff and RUCO have 30 days to review the filing and, if no objection is raised, the surcharge will be placed on an open meeting agenda at the earliest practicable date. No surcharge can be implemented until objections are addressed and the Commission approves such surcharge.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

- Earnings Test – The SIB mechanism approved by the Commission in the Eastern Group case includes an earnings test with each SIB surcharge filing, and that test is incorporated in this case under the Settlement Agreement.
- Number of SIB Surcharge Filings Allowed Between General Rate Cases – The Company may file up to five SIB surcharges for each of its ratemaking systems between general rate cases, with the initial filing being no sooner than 12 months after the date of the Commission's decision in each system's most recent general rate case. The Company may file no more than one SIB surcharge every 12 months for each system. Additionally, the Company must file its next general rate case application using a test year that is no later than five years after the test year used in its most recent general rate case, and any SIB surcharges that are then in effect will be reset to zero at the conclusion of that general rate case, as the associated costs will be included in the base rates approved by the Commission in that proceeding.
- Annual SIB True-up – For each 12-month period that a SIB surcharge is in effect, the Company must reconcile the revenue collected through the SIB surcharge with the SIB revenue authorized for that period. Any over- or under-collected SIB surcharge revenues will be refunded, or collected, as appropriate over the subsequent 12-month period.
- Public Notice – At least 30 days prior to a SIB surcharge becoming effective, the Company will provide public notice in the form of a billing insert or customer letter that summarizes the amount of the SIB surcharge, the SIB efficiency credit, and any true-up, as well as a summary of the projects included in the surcharge and their associated cost.

[Eastern Group Phase 2 ("Phase 2") Ex. A-2 at p. 8, l. 20 – p. 10, l. 28; Phase 2 April 8, 2013 Transcript ("4-8 Tr.") at p. 54, l. 7 – p. 62, l. 5; Phase 2 Ex. A-1]

As discussed above, the Signatory Parties agree that a SIB mechanism is appropriate for the Company's Northern Group. In accordance with the Commission's

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

stated intent that the Eastern Group SIB mechanism serve as a template, the Signatory Parties to the Settlement Agreement in this case specifically adopted by reference the same form of SIB mechanism the Commission established in the Eastern Group case. [Ex. A-1, Section 6.0 and Ex. 1 to Settlement Agreement]. The SIB mechanism was the subject of extensive hearings in Phase 2 of the Eastern Group case before Administrative Law Judge Dwight D. Nodes. It was discussed at length by the Commission at its June 12, 2013 Open Meeting, and adopted by a 4-1 vote. The same considerations that led the Commission to embrace the SIB mechanism in the Eastern Group case are present here.[3]

The Company's application, schedules, and testimony also support the specific SIB treatment proposed for the Pinetop Lakes, Overgaard, Sedona, Pinewood, and Rimrock public water systems. As referenced above, the Company submitted, and Staff approved, SIB table 1 delineating the specific infrastructure replacement projects that are eligible for SIB treatment in this case. [Ex. A-2] Based on the evidence in the Eastern Group case, the Commission's June 12, 2013 decision, and the entire record in this proceeding, the agreed-upon SIB mechanism should be adopted for the Company's Northern Group.[4]

B. The Agreed-Upon SIB Mechanism Benefits.

The benefits of the SIB mechanism to customers were examined extensively in the Eastern Group case and briefed in Section II(D) of Arizona Water Company's Closing Brief in that case, at pp. 13-15, which will not be repeated here. The record is

---

[3] On June 12, 2013, following adoption of the SIB mechanism in the Eastern Group case, Commissioner Susan Bitter Smith docketed a letter in the Eastern Group case describing the SIB mechanism as "historic and important for the future of the State of Arizona's water customers." In an indication of the Commission's intent that it be used as a template for future cases, such as this case, she wrote: "The template for the SIB can be used by other water companies to make much needed infrastructure repairs, with incremental, as opposed to significant rate increases. The decision of the Commission in this case reaches far beyond one individual water company and has broader positive ramifications for all private water companies and their customers."

[4] Additional support for the SIB mechanism, and record evidence countering RUCO's opposition to the SIB concept, are set forth in Section II(C) of the Arizona Water Company's Closing Brief in the Eastern Group case at pp. 7-13, which, because of the Commission's decision in Phase 2 of the Eastern Group case, will not be repeated here.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

uncontradicted that the SIB mechanism flows savings back to customers in the form of the five percent Efficiency Credit, which translates to an 87-basis point reduction in the ROE applicable to SIB-eligible plant, as well as depreciation expense related to retired plant, plus hypothetical income tax savings related to the long-term debt to finance replacements [Ex. A-4 at p. 7, ll. 3-10; 5-14 Tr. at p. 308, l. 9 – 309, l. 8; p. 261, l. 23 – p. 269, l. 19; p. 247, l. 21 – 248, l. 16]. Moreover, the SIB mechanism template, as now adopted by the Commission, provides for a more rigorous regulatory review of qualifying infrastructure replacements, which also benefits customers. [Ex. A-4 at p. 8, ll. 7-19; 5-14 Tr. at p. 263, l. 20 – p. 264, l. 24]. This degree of review exceeds that accorded to plant in a general rate case; for example, under the SIB Mechanism the Company must provide 100 percent of contractor invoices supporting SIB-eligible projects as opposed to a random sampling in a general rate case.

C. The SIB Mechanism Complies with the Arizona Constitution, Arizona Statutes, Commission Regulations and Procedures and Arizona Case Law.

This issue was also exhaustively scrutinized in the Eastern Group case, and was briefed by Arizona Water Company in Section II(F) of its Closing Brief, at pp. 19-25. Arizona Water Company incorporates those arguments here. ALJ Nodes exhaustively and correctly examined and addressed the legal issues surrounding the SIB mechanism in his May 28, 2013 Recommended Opinion and Order ("ROO") in the Eastern Group case, which was adopted as to this issue by the Commission at its June 12, 2013 Open Meeting [*See* May 28, 2013 ROO in Eastern Group case at p. 42, l. 2 – p. 54, l. 3]. Arizona Water Company concurs with Judge Nodes (and the Commission in the pending Decision and Order) that "the SIB mechanism embodied in the Settlement Agreement, together with the additional financial information and analysis required herein, is compliant with the Commission's constitutional requirements, as well as the case law interpreting the Commission's authority and discretion in setting rates." [*Id.* at p. 52, ll. 23-26]. Additionally, the Commission adopted an amendment to that ROO adding language to

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

Conclusion of Law No. 4 as follows: "The Commission has the constitutional ratemaking authority to approve adjustment mechanisms in a general rate case." [Pierce Proposed Amendment No. 2 dated June 11, 2013, as revised in June 12, 2013 Open Meeting]. Since the additional protections built in by Judge Nodes and adopted by the Commission on June 12 are incorporated into this case by the Settlement Agreement, the SIB mechanism sought here is equally compliant with Arizona law and Commission regulations and procedures.

VI. THE AGREED-UPON ADJUSTMENT TO BILLING DETERMINANTS TO REFLECT DECLINING CUSTOMER USAGE IS WELL SUPPORTED BY THE EVIDENCE AND IS IN THE PUBLIC INTEREST

The adjustments to billing determinants set forth in Section 4.0 of the Settlement Agreement and Schedules H-3 and H-4 were agreed to by the Signatory Parties as part of the overall negotiation of issues in the case. [Ex. A-1, Sch. H-3, H-4]. The record conclusively demonstrates that because a significant portion of the Company's fixed costs are recovered through the volumetric commodity rate, the Company will not recover its cost of service as customers continue to respond to the Company's BMPs and reduce their consumption. [Ex. A-7, p. 30, ll. 5-9; 5-13 Tr. p. 53, l. 1 – p. 55, l. 20; p. 65, l. 5 – p. 66, l. 7; p. 118, ll. 11-22].

Consistent with the Commission's policies and BMPs, Arizona Water Company has documented a long-term and pervasive decline in customer usage, and this decline was clearly demonstrated in the chart shown on p. 30 of Company witness Joel Reiker's prefiled direct testimony, Ex. A-7. [*See also* 5-13 Tr. at p. 91, ll. 12-24; 5-14 Tr. at p. 223, l. 24 – p. 229, l. 9]. As a result of this and other factors, the Company has not been able to fully recover its cost of service in the past 16 years. [Ex. A-4 at p. 6, l. 2 – p. 7, l. 2, and accompanying chart]. The Company provided evidence that it conducted numerous studies and analyses showing this decline in per-customer usage. [Ex. A-7 at p. 31, l. 17 – p. 32, l. 25]. Arizona Water Company submitted studies and analyses in its 2007 Test Year Total Company general rate case [Docket No. W-01445A-08-0440, Ex. JMR-4, RB4 through RB7 and JMR-RBEX3] and its 2010 Test Year rate cases for the Western [Docket

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

No. W-01445A-10-0517 (Ex. JMR-5)] and Eastern Groups [Docket No. W-01445A-11-0310 (Ex. JMR-1)] showing that residential and combined residential and commercial per customer usage continues to decline.

In this proceeding, the Company conducted a multiple regression analysis of monthly residential usage while controlling for weather conditions, for the five years ending December, 2011. That analysis showed a statistically significant annual decline in residential usage of 2.03 percent in the Navajo system and 2.71 percent in the Verde Valley system [Ex. A-7 at p. 18, ll. 2-14]. Staff concurred. At the hearing, the Company presented Ex. A-6, showing that residential per customer usage for the four months ending April 2013 was down 11.52 percent in the Navajo system and 6.9 percent in the Verde Valley system compared to the same period during the 2011 Test Year, and that commercial usage for the same four months was down 21.05 percent in Navajo and 8.5 percent in Verde Valley. [Ex. A-6; 5-13 Tr. at pp. 51-52]. Tellingly, it was hotter and drier in the first four months of 2013 compared to the Test Year, which would lead one to expect usage to *increase* rather than to decrease to the extent the evidence showed it had. [Ex. A-6; 5-13 Tr. at p. 51, ll. 9-23; 5-14 Tr. at pp. 223-229].

Moreover, the evidence showed that declines in per capita water usage are expected to continue. [5-13 Tr. at p. 66, l. 9 – p. 68, l. 24]. Arizona Water Company cited a 2010 project sponsored by the Water Research Foundation and the United States Environmental Protection Agency examining declining trends in household water usage. [Ex. A-4 at p. 11, l. 9 – p. 12, l. 8]. That study found a decline in annual residential usage at the national level of 0.44 percent per year since 1975—a period of more than 35 years. [*Id.*]. The study concluded that residential water usage will continue to decline, pointing out that higher water efficiency standards for washing machines and dishwashers have been adopted effective in 2011. [*Id.*].

In his testimony, Staff witness Mr. Olea noted that the purpose of increasing block tiered rates is to promote more efficient use of Arizona's limited water resources. [Ex. S-6 at p. 2, ll. 9-22]. Staff continues to recommend this type of rate design, and the

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

Commission continues to approve it, because of the belief that such rate designs cause customers to use less water. Mr. Olea specifically testified that "Staff believes that there is a very high likelihood that AWC's customers will in fact use less water than in the test year." [*Id.* at p. 2, ll. 19-20]. In addressing Staff's justification for the agreed-upon declining usage adjustment, he testified:

> If you are going to use BMPs, if you are going to use tiered rates, and you assume that they are going to work, then you are going to assume there is going to be less water usage. So I think it is not unreasonable to believe that the tiered rates in the BMPs are going to cause customers to use less water. If you know that going in, *then you have to make some adjustment* for it. And that's what we did here. [emphasis supplied]

[5-14 Tr. at p. 251, ll. 8-21]. In response to questions by Arizona Water Company's attorney, Mr. Olea expanded upon Staff's justification and support for the specific adjustment for declining usage of five percent—especially in light of the fact that the experience of the Company in the months immediately following the test year is that usage is actually declining at a far greater rate:

> Q: ...I am gathering that at some point in the settlement discussions the manner of approaching and dealing with what was perceived as the reality of declining usage shifted to just a straight percentage deduction. Is that fair enough to say?
>
> A: That's where we ended up, yes.
>
> Q: And Staff felt that there is a very high likelihood that AWC's customers will in fact use less water than the test year, right?
>
> A: Very high.
>
> Q: And have you been listening in or watching Mr. Reiker's testimony where he has set forth now that we are, you know, plus or minus 16 months into post-test year usage what the company is actually experiencing in terms of declining use?
>
> A: I have heard some of that but not all of that.
>
> Q: Okay. From what you have heard does it appear consistent with the correctness of a 5 percent declining usage adjustment to revenues?

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

A: From the pieces I have heard, I think Staff is even more comfortable now with the 5 percent.

[*Id.* at p. 259, l. 3 – p. 260, l. 6; *see also* p. 294, l. 17 – p. 296, l. 3 (chance of water use per customer remaining the same or increasing is "very small.")].

In summary, Arizona Water Company and Staff are justified in adopting the five percent adjustment to billing determinants as a means of addressing declining customer usage. RUCO provided no contradictory evidence in the record. This aspect of the Settlement Agreement is sound public policy, supported by the record, and should be adopted by the Commission.

VII. RATE OF RETURN

A. The Compromise of 10.0 Percent ROE Agreed Upon by the Signatory Parties is Well Supported by the Evidence and is in the Public Interest.

Arizona Water Company and Staff, after intense negotiations and with input from RUCO, reached agreement that the compromise ROE in this case should be 10.0 percent. [Ex. A-1, Section 3.1]. After negotiating for a reduction in ROE, RUCO declined to sign the Settlement Agreement and now argues that the Company's authorized ROE for the Northern Group should be 8.8 percent. Staff and Arizona Water Company submit that the total rate of return on rate base that should be adopted in this case is 8.44 percent (6.82 percent cost of debt; 10.00 percent cost of equity; 48.95/51.05 percent debt/equity capital structure). [Ex. A-1, Section 3.1].

The Signatory Parties spent substantial time negotiating this component of the settlement. The Company's evidence supported an ROE of 11.3 percent [Ex. A-10, Prefiled Direct Testimony of Pauline Ahern]. That figure was thoroughly supported by a number of recognized approaches to calculating ROE, as Ms. Ahern testified. Staff originally sought an ROE of 9.1 percent [Ex. S-1, Prefiled Direct Testimony of Jeff Michlik]. Given all of the variables and circumstances in this case, a compromise figure of 10.0 percent is justified.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

First, the legal standard applicable to the Commission's setting of ROE supports the agreed 10.0 percent figure. The Constitution requires that utilities such as Arizona Water Company have an opportunity to recover their cost of providing service. That cost includes a return on the fair value of its property devoted to public service that is sufficient to (1) allow the utility to attract capital on reasonable terms; (2) maintain the utility's financial integrity; and (3) allow the utility an opportunity to earn a return that is commensurate with the returns earned by enterprises with comparable risks. The seminal case stating these requirements is *Bluefield Water Works*, in which the United States Supreme Court explained:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and *should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.*

Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n of W.V., 262 U.S. 679, 692-93 (1923) (emphasis supplied).

The Supreme Court also stated: "Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment." *Id.* at 690. Thus, the rates set in this proceeding—including the cost of equity—must be sufficient to allow the Company to earn its authorized rate of return during the period the rates will be in effect.

The United States Supreme Court again addressed these standards in *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944):

> The rate-making process . . . i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. case that 'regulation does not insure

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

> that the business shall produce net revenues.' 315 U.S. at page 590, 62 S.Ct. at page 745. But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. (citation omitted) By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. *That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.* (citation omitted)

Id. at 603 (emphasis supplied).[5] Ms. Ahern testified that *Bluefield Water Works* and *Hope Natural Gas* are authoritative precedent that this Commission should follow. [Ex. A-10 at p. 24, l. 16 – p. 25, l. 5].

Second, both Ms. Ahern and Mr. Reiker testified about the benefits to the utility and the ratepayers in setting an ROE high enough that a utility may recover its authorized rate of return on rate base. [*Id.* at p. 25, l. 6 – p. 26, l. 8; Ex. A-7 at p. 6, l. 15 – p. 7, l. 21]. Arizona Water Company demonstrated that it has gone 16 years without being able to earn its authorized rate of return, with the cumulative total of such under-recovery being more than $41 million. [Ex. A-4 at p. 6, l. 4 – p. 7, l. 2]. Awarding any ROE less than the already-compromised and agreed-upon 10.0 percent, which is already 130 basis points lower than what Ms. Ahern's analysis demonstrates is justified, would unduly punish the Company. Staff recognized the fairness of the 10.0 percent ROE figure in agreeing to that figure in settlement.

Third, RUCO's cost of equity estimates are downwardly biased and flawed, and should be rejected. RUCO has consistently argued for returns on equity that are lower than the average of ROEs authorized for water utilities in other states. This is especially

---

[5] Although *Hope* is often cited and relied upon by parties before the Commission, a 1956 Arizona Supreme Court case criticized the manner in which the U.S. Supreme Court addressed the question of fair value determination in light of the language in the Arizona Constitution. *See Simms v. Round Valley Light & Power Co.,* 80 Ariz. 145, 151, 294 P. 2d 378, 882 (1956). A later Arizona Supreme Court En Banc opinion, *US West Communications, Inc. v. Arizona Corporation Comm'n,* 201 Ariz. 242, 245-246, 34 P.3d 351, 354-355 (2001), confirms the Commission's broad discretion and embraces the *Hope* rationale.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

unjustified given the evidence in the record that Arizona Water Company's Northern Group of systems are more risky than the utilities in the sample groups of water companies RUCO used in its analysis. Ms. Ahern's experience and the foundation of her expert opinions on ROE—set forth in detail in Ex. A-10 and her attached exhibits—are far more credible and compelling than those of RUCO's witness.

B. The Adoption of the Agreed-Upon SIB Mechanism Should Not be Linked to a Utility's ROE.

This issue was thoroughly discussed and considered by the Commission in Phase 2 of the Eastern Group case and specifically at the June 12, 2013 Open Meeting. The Commission did not adjust its authorized ROE of 10.55 percent in the Eastern Group case in the face of implementing a SIB mechanism, despite RUCO's arguments urging a 10.0% ROE as suggested in the May 28, 2013 Phase 2 ROO. In amending that ROO, the Commission adopted the following language in its Decision:

> We disagree with RUCO. As Mr. Olea testified, the existence or lack of a DSIC does not change the risk of the utility, and ***therefore the existence or lack of a DSIC should not change the utility's ROE*** (Tr. at 275 to 276). As Mr. Olea explained, the efficiency credit is a more appropriate means to provide a financial benefit to the ratepayers. (Tr. at 276 to 277). Moreover, we find RUCO's argument ironic; while today RUCO argues that adding a DSIC reduces risk, we do not recall RUCO ever arguing that the absence of a DSIC results in higher risk. In addition, RUCO's witness Mr. Rigsby conceded that some of the "sample" group of companies used to determine ROE have DSICs. (Tr. at 485). ***Logically, to the extent (if any) that a DSIC impacts risk, the reduced risk would be reflected in the sample companies used to set the ROE, and we are not persuaded that any adjustment to the ROE is warranted.*** (Emphasis added)

[Pierce Proposed Amendment No. 3 dated June 11, 2013 in Eastern Group case]. The negotiated settlement ROE in this case is already 10.0 percent, and both Staff and the Company compromised to that figure along with other give-and-take compromises on a variety of issues in this case, while also agreeing to the SIB mechanism. The Commission should accept this aspect of the Settlement Agreement without change. No evidence

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

whatsoever exists in this record that would support a further downward revision of the compromise ROE of 10.0 percent.

Ms. Ahern testified that the SIB and similar mechanisms are not risk reducing in terms of bond or equity investors' perception of risk, because of the relative *de minimus* effect that the SIB mechanism has as implemented by the Commission. [5-13 Tr. at p. 169, ll. 6-11]. The Commission should not authorize a SIB mechanism (which already includes a five percent efficiency credit that translates to an 87-basis point reduction in the ROE applicable to SIB-eligible investments), and then subtract the benefits of the SIB mechanism by also reducing the compromise 10.0% ROE. As Ms. Ahern testified during Phase 1 of the Eastern Group case on this point, it is especially important to authorize a DSIC-type mechanism in conjunction with a sufficient ROE to enable the Company to raise the capital required to undertake the capital expenditures required to replace aging infrastructure while maintaining its financial integrity. [Eastern Group Phase-1 Ex. A-34 at p. 29, ll. 17-20].

Ms. Ahern also testified in the Eastern Group case that SIB-type mechanisms, if all else is equal and/or effective, will reduce the volatility of cash flows; but such a reduction is a single limited factor that affects the investor in making their pricing decisions but not their expected return on equity. [Eastern Group Phase-1 Tr. at p. 997, l. 19 – p. 998, l. 3]. Ms. Ahern also testified that of the 11 states that have adopted SIB-type mechanisms, *not a single one* had reduced the utility's ROE. [*Id.* at ll. 4-9]. She testified that the perceived benefit of enhancement of credit quality could result in a higher bond rating, but does not translate directly to a reduction in common equity risk. [Eastern Group Phase-1 Tr. at p. 999, l. 18 – p. 1000, l. 14; p. 1001, l. 21 – p. 1002, l. 22; p. 1006, ll. 8-16; p. 1015, l. 16 – p. 1016, l. 7].

Mr. Olea's testimony on behalf of Staff is clear that ROE and the SIB mechanism are entirely different issues:

> [W]hat we're saying is, for Arizona Water's 10.55 [the ROE in the Eastern Group case], you don't have to look at that, the way the SIB is set up

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

with the efficiency credit. If you set up the SIB the same way for other companies, then those two items will be separate. The ROE would be separate from the SIB, because you've already taken something into account.

* * *

Q. [By Counsel for RUCO]: So as we move forward, Mr. Olea, and we look at SIB surcharge applications in the future, is it your testimony that as long as there's an efficiency credit, then Staff will be – Staff won't concern itself with the return on equity as it relates to the investment issue?

A. That's what I'm saying.

* * *

Q. Do you believe, to the extent that the 5 percent efficiency credit is a benefit to ratepayers, that the benefit is negated by the higher 10.55 percent ROE awarded by the Commission?

A. No.

Q. Why not?

A. Because I think that the risk is what the risk is on that company, and the fact that they now have a mechanism or would have a mechanism to address part of that, you know, part of their infrastructure needs, doesn't change that. That risk still is what it is.

Q. Do you think the company's ROE in this case should be a consideration when evaluating the SIB?

A. No. As I stated earlier, as long as you have some type of credit in there in the SIB, then no. If you didn't have that, which is why I totally agree with the way the ROO was written, it says that the DSIC that the company had, and that's why they didn't get the DSIC.

[Eastern Group Phase-2 4-11 Tr. at p. 272, ll. 12-18; p. 272, l. 23 – p. 273, l. 3; p. 275, l. 23 – p. 276, l. 15]. Mr. Olea also testified that he was unaware of any instances where the Commission has ever increased an ROE to account for actions it took that resulted in worsening the effects of regulatory lag, such as elimination of purchased power adjustors or purchased water adjusters. [*Id.* at p. 349, l.25 – p. 350, l. 15]. As Mr. Olea testified in the Eastern Group case, with the SIB mechanism already containing the functional

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

equivalent of a reduction (of 87 basis points) in ROE for SIB-eligible projects by way of the Efficiency Credit, a company's overall risk "still is what it is."

It is also significant that RUCO presented no evidence whatsoever in either the Eastern Group case or this case of what an appropriate adjustment to ROE would be as a result of the SIB mechanism, a fact that was confirmed both by Mr. Quinn [*Id.* at p. 427, ll. 14-19] and Mr. Rigsby [*Id.* at p. 487, ll. 16-20; p. 488, l. 6 – p. 489, l. 1]. Further, RUCO presented no studies to support its theory about reduction to ROE where there was a SIB mechanism. [*Id.* at p. 489, ll. 2-7]. Mr. Rigsby admitted on cross examination in this case that RUCO has no evidence by way of empirical data, formulas or study results that supported its proposed 50 basis point reduction in light of the SIB mechanism. [5-14 Tr. at p. 363, ll. 17-25]. Ms. Ahern, in turn, cited two recent empirical studies showing that such mechanisms have no statistically significant impact on investor perceptions of risk, as reflected in market data upon which all witnesses in this case based their recommended returns on common equity. [Ex. A-5 at p. 8, l. 15 – p. 10, l. 6].

C. The Adoption of the Agreed-Upon Declining Usage Adjustment Should Not be Linked to a Utility's ROE.

There is no evidence in this record of any nexus between the agreed-upon declining usage adjustment and ROE or investors' perception of risk. RUCO offered no basis whatsoever for its claim that the agreed-upon pro forma test-year adjustment for declining usage "shifts risk" from the Company to its customers. [5-14 Tr. at p. 362, ll. 10-17]. Instead, Mr. Rigsby admitted that it is helpful to look at actual post-test year results in setting rate design [*Id.* at p. 361, ll. 14-19], that it was fair that a utility should be able to recover its cost of service and that the ratemaking process is best served by using the most accurate information available. [*Id.* at p. 375, l. 13 – p. 378, l. 25].

The declining usage adjustment is an appropriate pro forma adjustment that is no different than any other type of pro forma adjustment to actual test year results (some of which the Signatory Parties compromised and settled in their Settlement Agreement) intended to reflect conditions of service that are reasonably expected to prevail during the

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

period that new rates will be in effect. [Ex. A-4 at p. 9, ll. 2-8]. The Company and the Utilities Division Staff agreed to settle for an adjustment that is substantially less than what the Company has actually experienced in terms of post-test year declines in per-customer usage. [5-13 Tr. at p. 91, l. 25 – p. 92, l. 14]. Mr. Olea agreed that, even standing alone, this aspect of rate design is in the ratepayers' best interests. [5-14 Tr. at p. 301, ll. 17-22]. The settlement rate design should be adopted by the Commission and no ROE adjustment is warranted or supported on this record.

VIII. CONCLUSION

It is important for the Commission to acknowledge and support the efforts of parties like Arizona Water Company and Staff who reach principled and well-supported compromises and settlements of rate cases. The Company and Staff did so here, with RUCO's participation to the very end of the process, when it ultimately declined to sign the Settlement Agreement. RUCO agrees to substantially all aspects of the settlement save for the implementation of a SIB mechanism, the compromise 10.0% ROE and the agreed-upon and supported declining usage adjustment. Changes to any of these three factors imbedded in the Settlement Agreement would be material. No competent evidence exists in the record to support a deviation from the settlement terms. Accordingly the Commission should adopt the Settlement Agreement as presented at its earliest opportunity.

RESPECTFULLY SUBMITTED this 18th day of June, 2013.

BRYAN CAVE LLP

By _____

Steven A. Hirsch
Stanley B. Lutz
Two N. Central Avenue, Suite 2200
Phoenix, AZ 85004-4406
Attorneys for Arizona Water Company

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

ORIGINAL and 13 copies of the foregoing filed this 18th day of June, 2013, with:

Docket Control Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

COPIES of the foregoing hand-delivered this 18th day of June, 2013, to:

Janice Alward, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Daniel W. Pozefsky, Chief Counsel
Residential Utility Consumer Office
1110 W. Washington Street, Suite 220
Phoenix, AZ 85007

Arizona Reporting Service, Inc.
2200 N. Central Avenue, Suite 502
Phoenix, AZ 85004-1481

Cathy Tardy

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000